

## **Executive Summary**

### ***Background***

The 2004 Strategic Financial Plan (SFP) is the seventh prepared since 1997. Although the 2004 SFP contains forecasts for virtually all the County's budgeted funds, its primary focus is on that portion of the General Fund often referred to as the discretionary general fund or the Net County Cost (NCC). Representing about 12% of the total FY 2004-05 Preliminary Budget of \$4.5 Billion, it is the source of funding for those activities, over which the Board has some discretion. The non-discretionary portion of the budget contains activities such as benefit payments to clients, which the County provides using revenues from the State and Federal Governments specifically for that purpose.

### ***Process***

Preparation of the 2004 SFP involves the following four elements: Economic Forecast (Section V), General Revenue Forecast (Section VI), Program Forecasts (Section XII), and Strategic Priorities (Section X). The Economic and General Revenue Forecasts were prepared by James L. Doti, Ph.D., President of Chapman University in Orange, California and Esmael Adibi, Ph.D., Director of the A. Gary Anderson Center for Economic Research at Chapman. The Program Forecasts are developed by the County's Agencies and Departments in cooperation with County Executive Office.

The Identification of "Strategic Priorities" is a collaborative effort that involves the Agency/Department Heads and the Board of Supervisors. Strategic Priorities are identified as new or expanded programs and/or infrastructure initiatives.

There are two new aspects to the 2004 Strategic Financial Plan:

- The first year of the SFP, FY 2004-05 is the Preliminary FY 2004-05 Budget
- The Preliminary FY 2004-05 Budget and the four remaining years of the plan were prepared using the concept of net county cost limits (see Section VII).

Because most departments in forecasting their on-going baseline activities exceeded their NCC Limits, the 2004 SFP departmental forecasts and the Preliminary FY 2004-05 Budget represent significant reductions in the ability of the County to maintain a base level of service to the public.

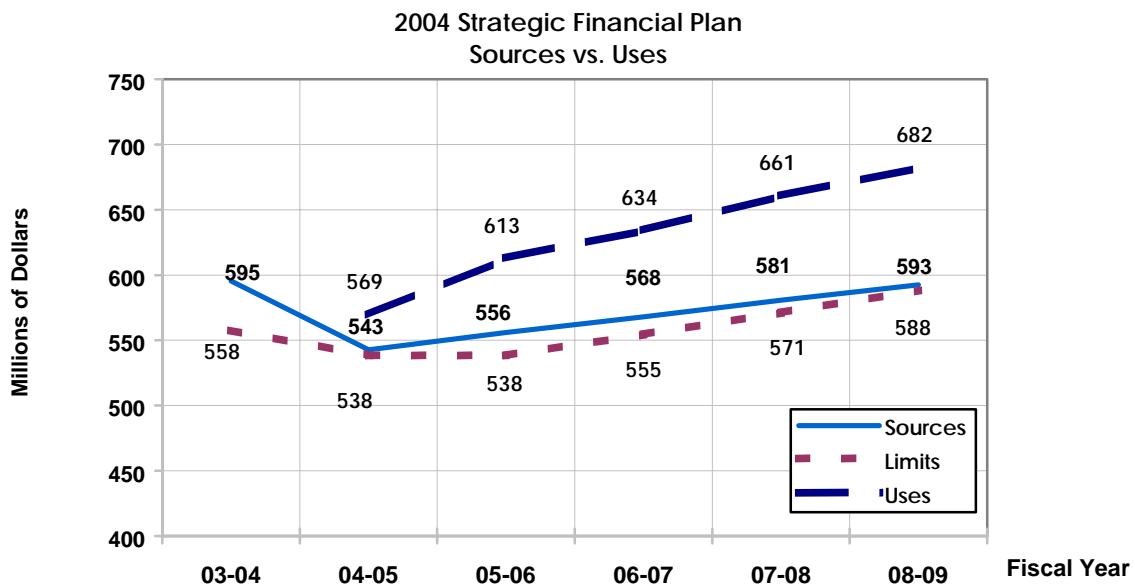
The basic forecast is a five-year view produced by the departments which is extended out an additional five years by the CEO staff using basic assumptions for inflation and revenue growth.

The 2004 SFP does not incorporate local government funding proposals currently under discussion in Sacramento. The SFP does include specific program impacts included in

the Governor's FY 2004-05 budget presented to the Legislature in January 2004. It does not include the proposed \$1.3 billion property tax shift from local governments to the schools, that was in the January State Budget proposal. The local government "contribution" to the State, of which Orange County's general fund share was estimated to be \$63 million annually, is the subject of discussions going on in the Legislature as this document goes to print. The CEO staff will present strategies to deal with potential State budget impacts at the May 7, 2004 Special Meeting of the Board of Supervisors.

### Outlook

The 2004 Strategic Financial Plan indicates that given available funding sources, current operations which require general purpose revenues, cannot be sustained at the current level. The chart below is a graphic comparison of revenue sources, limits and baseline operating requirements. This chart does not include provision for expanded levels of services. The numbers represent dollars in millions.



On the chart above the solid line includes the forecasted revenue sources including estimates of annual carryover or Fund Balance Available (FBA). The small dashed line represents the net county "limits". The limits hold net county cost for the departments and agencies flat for two years and then grow at 3% per year, about the same rate at

which general purpose revenue is forecast to grow. The solid line represents what the departments and agencies forecast they will need in net county cost to continue delivery of services to the public at the current level. This line does not include any provision for expanded services or new Strategic Priorities.

The baseline budget requests for FY 2004-05 total \$538 million, additionally there are \$31 million in requests to restore services countywide, the County Executive Office is recommending that \$6.5 million be approved for a total of \$544.5 million. To meet the limits or at least come close to the limits, several departments with program reserves used up considerable amounts. These are essentially one-time moneys.

The consequences of not having resources to fund all baseline operations in FY 2004-05 include:

- Closure of 100 juvenile institution beds
- Closure of two more Youth and Family resource centers, leaving two open out of a one-time total of six
- Reduced level of adult parolee monitoring
- Reduction of mental health services for indigents
- Reduction in Alcohol and Drug treatment programs
- Reduction in Family Health clinic services
- Reductions to programs targeted to assist senior citizens
- Reduction to County funds for the Human Relation Commission

Even in a year in which there is forecast a shortage of revenue to operate baseline services, it is important to identify major new challenges facing the County in future years. These items are called Strategic Priorities and were the subject of a department head workshop held on April 6, 2004. The department heads prioritized the 43 Strategic Priorities and came up with a top ten list:

- County Accounting and Personnel System (CAPS) Replacement
- Credit and Debt Management Strategy – Debt Reduction
- High Tech Crime Unit
- Identity Theft Unit
- Bio-terrorism and Public Health Preparedness
- Affordable Housing
- Los Piños Wastewater Mitigation
- Youth and Family Resource Centers
- Preventive Maintenance
- Water Quality and Watershed Protection
- 800 Megahertz Communications System Upgrade
- Debt Reduction

The County Executive Office staff will present the 2004 Strategic Financial Plan to the public and the Board of Supervisors at a special meeting scheduled for Friday, May 7, 2004 beginning at 9:00 a.m. The meeting agenda is available in Section II.